RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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**Apr. 24, 1996** **LETTER 1198**

**INFLATION?** The question of the day -- is inflation dead or is it coming b-a-c-k? For one thing, deficit reduction anytime soon is a lost cause (even Dole has stopped talking about it). That means continuing deficits and eventually (if not sooner) *monetization of the debt* -- which is *inflationary*. Then there is the new growth in employment and a slow but definite increase in retail sales. Finally there's the explosion in the price of the grains, cotton, some metals, oil and the commodity indices. Also, housing prices appear to be firming or actually rising. And rentals in commercial real estate are definitely improving.

Bond market aficionados have put it all together and decided that inflation is not dead. As a result, the yield on the long bond is now bouncing around 6.8%, which, by the way, is **3.2 times** the yield provided by the S&P 500. Therein lies a reason to be nervous.

**THE BIG THREE:** But if there's any "trouble" in the stock market it isn't visible yet. There have been three driving forces behind this bull market: (1) Massive liquidity; (2) Rising corporate earnings; (3) Extreme bullishness (should we call it euphoria?) on the part of the public.

The liquidity is still here. But the trend of earnings may be changing. For instance, in 1993 earnings on the S&P climbed 15% over '92. In '94 they climbed by 40% over '93. In '95 earnings rose 11% over '94. But here in '96 it looks as though earnings may climb by around 7% to 9% over '95 or possibly less. The case for earnings acceleration is fading.

As for expectations or market sentiment, that's always difficult to gauge. Expectations can be measured by how much people will pay for dividends or earnings or sales or some other measurement. The time-honored gauge of expectations is dividends. On that basis investors are now paying over **43 times dividends** for the broad S&P 500. Historically, anything over 32 times earnings has been considered dangerous and suggestive of a bull market top. Today's *sky-high ratios* suggest a "bubble." Further, they suggest that investors believe that "this time it's different."

**THE PICTURE:** At this juncture the levels in the various averages become particularly important, and they should be monitored closely. This being the case, please pay close attention to the following discussion, while referring to the charts on page 2.

First, turn to the chart of the **D-J Transportation Average**. The Transports struck their bull market high back on March 19 at a value of **2215.21.** But on April 18 the Transports recorded a new solo high. Non-confirmation by the Dow -- and questions.

Next, refer to the **D-J Industrial Average.** The Dow recorded a series of five successive bull market highs, the most recent being the April 3 bull market high of **5689.74.** As this is written, the Dow is forming what could be a "complex head-and-shoulders top." Time will tell.

If or when the Averages decline, we look for important levels on the downside. The significant level for the Dow is the February 20 closing low of **5458.53.** The significant low for the Transports is the March 8 low close of **2037.72.**

Next we turn to the broad **S&P 500 Stock Index.** Here we find the action considerably weaker than the action of the D-J Averages.

**Apr. 12 DJIA 5535.48; PTI 4503; A-D Ratio +0.51**
**Apr. 19 DJIA 5532.59; PTI 4487; A-D Ratio -0.02**
**Dow Yield: 2.17%; Dow Price/Earnings: 17.7**
**Dow 200-day MA: 5058; Dow 30-day MA: 5598**
**Dow Times Book Value: 4.24; PTI 89-day MA: 4445**
**Percentage of Undervalued Blue-chips: 4%**
**Gold 200-day MA: 392.04; Gold-PTI: 699**

The S&P recorded its bull market high on February 12 at a value of **661.45.** Following that (see last Letter) the S&P traced out a series of four declining peaks, an indication of weakness in that index.

On March 8 the S&P sank to a low of 633.50. A month later, on the April sell-off, that low was violated by a few points when the S&P (April 11) closed at a value of **631.18.** That violation has had little affect on the D-J Averages.

Note that I have included a **13-day** and a **55-day** moving average on each of these charts. Crossings by the 13-day MA above or below the 55-day MA are often significant. Early last week the 13-day MA for the S&P sank below the 55-day MA. This was a negative for the S&P, but, so far, S&P weakness has NOT been confirmed by the D-J Averages.

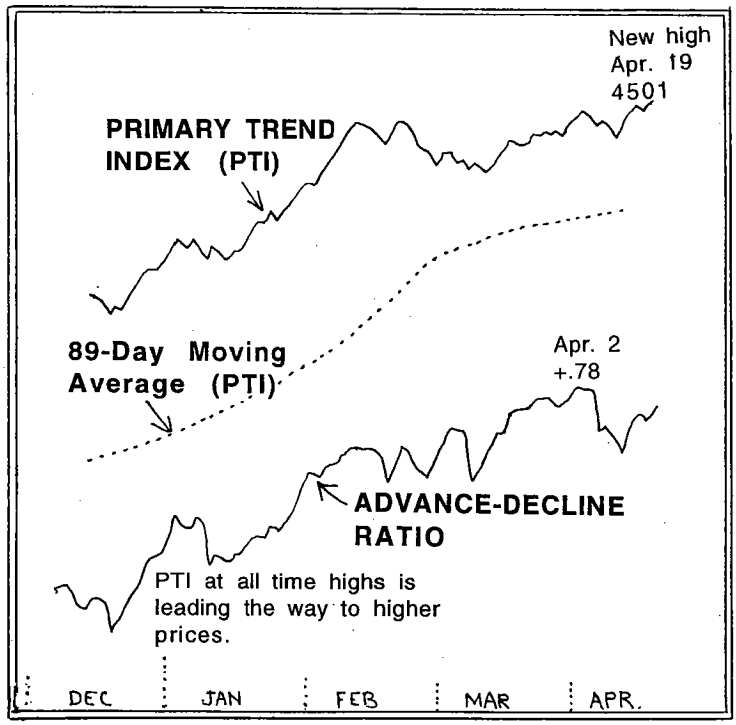
I have included charts of the **D-J Utility Average** and the **Treasury Bond** futures. Many years ago I presented a study which showed conclusively that when the utilities and bonds move up or down TOGETHER, the rest of the market almost always follows. Bonds and utilities are both highly sensitive to interest rates, but let's not lean on rationale -- suffice it to say that when bonds and utilities move together, for whatever reason, the rest of the market moves with them.

The **Utility Average** recorded its 1996 high on February 12 at a value of **234.00.** From there the utilities headed down. The utilities were immediately joined by the bonds. The joint decline put pressure on the rest of the market. Volume rose as stocks headed down.

Now turn to the **Bonds.** This has been the disaster area for 1996, but a bottom may have formed. The June Bond contract hit a low of 108.06 on April 11. That may have been the low. I don't expect the bonds to rally that much, but hopefully the April 11 low will hold.

**The Rebound:** On April 12 the bonds registered their first impressive rally. Confirming the bond action, the Utility Average appears to have bottomed on April 11 at a value of 206.40. With bonds and utilities having established lows, the rest of the market rallied.

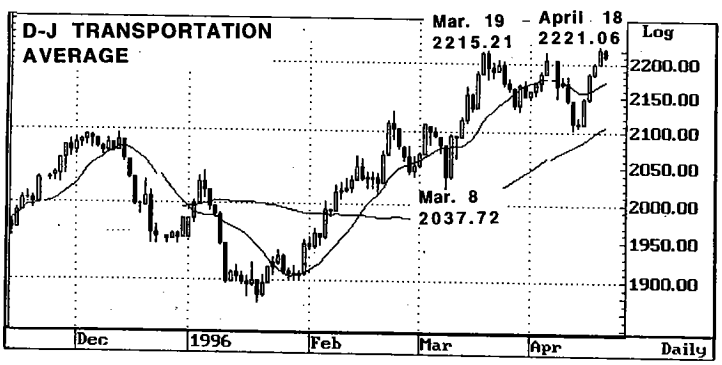
The final chart shows the **US Dollar Index.** Here we see what appears to be an important upside breakout. The strength in the dollar is a reflection of a few recent bullish developments (bullish for the dollar): (1) Business appears to be picking up in the US. (2) Interest rates have been rising in the US, thereby making it more attractive for foreigners to hold dollars. (3) The dollar is extremely attractive on a purchasing power parity basis -- in other words, the dollar buys a lot compared with what other comparable amounts of currencies can buy in their own countries. (4) A final factor is that almost every developed nation is now choking on too many government hand-outs, and on taxes that are punitive and wages that are too high. As a result (surprise), the US has become the

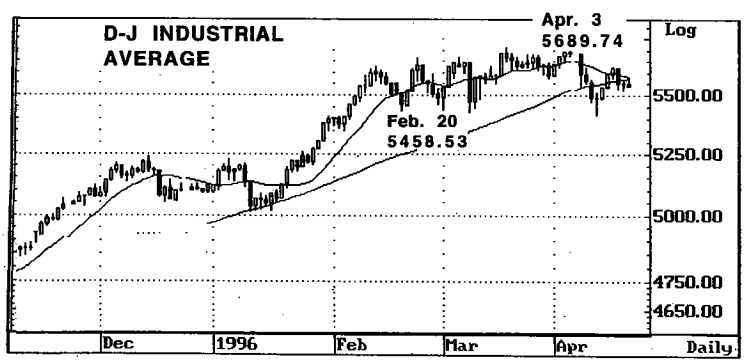


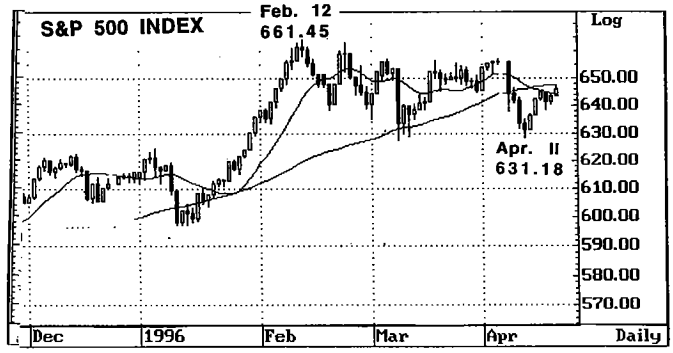

industrialized nations' most efficient producer. And of course the dollar is the world's reserve currency.

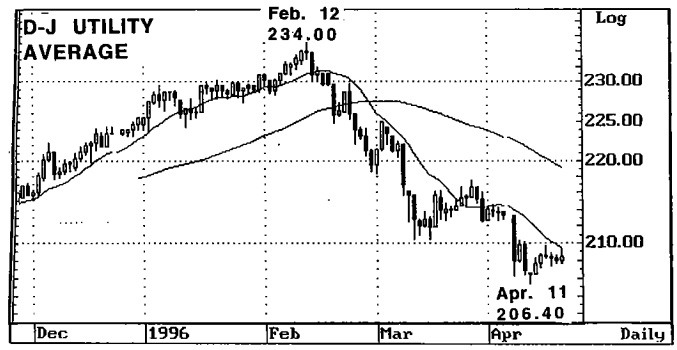
The high for the Dollar Index (June contract) was struck on April 15 at **87.90.** But selling immediately came in forming what appear to be a "double top." Since last October the dollar has climbed 5%.

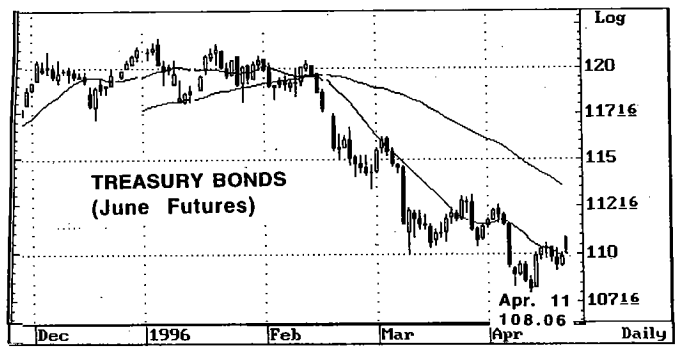
Now (page 2) turn to the chart of my **Primary Trend Index (PTI).** The PTI is, in my opinion, *the single best indicator of the underlying strength or weakness of the stock market.* The surprising part of the whole picture to me is *how little* the recent market weakness has affected the PTI. Following a spate of mild backing off and indecision, the PTI, on April 16, rallied to a **new high.** To me, this was a powerful indication that the stock market remains in a bull trend.

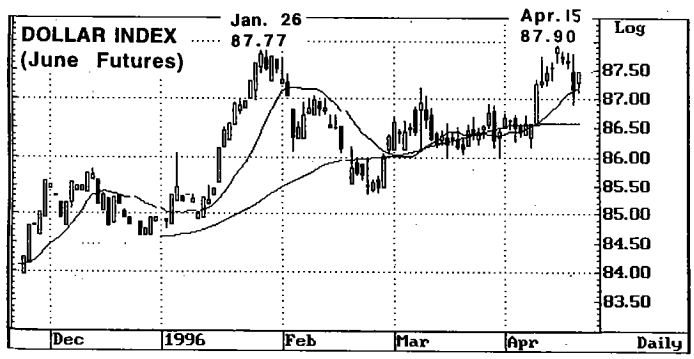


**INVESTMENT POSITION:** Our aging bull is still in the box. Actually, he must be a bull-cat, because he appears to have at least nine lives.

The Dow has assumed a "toppy" look (check the chart in your *Wall Street Journal*). But looks can be deceiving, and let's face it -- this bull market has held off the bears for 22 years (I take the whole bull market as having started in late-1974).

Money (searching for income and appreciation) is flying around the world now as never before -- buy Australian 10-year bonds for 9%, buy D-marks for safety, buy Japanese yen for a rally, buy Spanish and Italian rates for the fattest rates in Europe.

Speculation in all areas is white hot. Donna Karan is coming to market, Planet Hollywood came to the market, Yahoo yahooed 'em, everybody with a business and a corporate lawyer is lining up to sell stocks to a salivating public -- hey, aren't these the best of times!

But keep your eye on the S&P 500. Let's see if it can better its bull market high of **661.45** recorded last February 12. If it can, I'll be impressed, honest I will.

**HISTORY:** Following are some very significant dates in stock market history. I started watching and studying the market in 1945 and 13 years later, in 1958 I started *Dow Theory Letters.* Many of my subscribers have been with me since I started, and many of these dates will bring back fond (and in a few cases, not so fond) memories. Clearly, the next important date in this series will be the day when this great bull market finally tops out.

**July 3, 1884:** First stock average published by Dow Jones appears in the *Customer's Afternoon Letter,* the forerunner of the *Wall Street Journal.*

**Jan. 12, 1906:** After years of trying, the D-J Industrial Average finally closes over **100.**

**Sept. 3, 1929:** Dow reaches high close of 381.17, and the great bull market "Jazz Age" ends.

**Oct. 28, 1929:** Dow drops 38.33 points, a loss of almost 13% of its value.

**July 8, 1932:** Dow closes at 41.22, and here the greatest bear in history ends. Dow Theorist Robert Rhea calls the bottom to the day. The Dow never again sees this low level.

**April 28, 1942:** In the midst of WWII the Dow hits an historic low of **92.92.** The tide turns up, forecasting an Allied victory in the War. Dow Theorist Justin Barbour calls the exact bottom of the bear market.

**May 29, 1946:** The bull market tops out at Dow **212.50.** This was the highest Dow close since the 1930s. The 1942-46 bull market was accompanied by a massive rise in market breadth as almost every stock on the Big Board and the Amex moves up strongly.

**June 13, 1949:** The bear market hits bottom at Dow **161.60.** Dow Theorist George Schaefer identifies the bottom to the day and forecasts a coming great bull market. Subsequent events confirm Schaefer's brilliant prediction.

**February 9, 1966:** The mighty bull market dies at Dow **995.15.** My subscribers caught this one.

**Nov. 14, 1972:** Dow closes above **1,000** for the first time. Transports refuse to confirm.

**Dec. 6, 1974:** After eight years of confusing up-and-down action, the Dow closes at a final bear market low of **577.60.** This ends the worst bear market since the 1930s (my veteran subscribers remember this date well). Happily, I call for an end to the bear market -- and we are heavy buyers of stocks here.

**Jan. 8, 1987:** Dow closes above **2,000** for the first time.

**Oct. 19, 1987:** Dow plunges a record 508 points, wiping out 22.6% of its value.

**April 17, 1991:** Dow closes above **3,000** for first time.

**Feb. 23, 1995:** Dow closes above **4,000** for first time.

**Nov. 21, 1995:** Dow closes above **5,000** for first time.

**March 8, 1996:** Dow drops 171.24 points, third worst point drop in history but it's only a percentage drop of 3.04%.

**NOTES & QUOTES:** Money continues to pour into the mutual funds at an incredible rate. According to Charles Biderman of *Market Trim Tabs,* "The past week (week ending April 5) was the strongest ever for inflows into domestic funds; a record $6.2 billion -- for a $26.7 billion monthly rate. That tops the previous peak of $5.2 billion set the week ending January 4, 1996. The $11.3 billion last two week flow by itself equals 10.4% of 1995's entire flow." **Russell comment:** This certainly suggest a "market mania." Each time the market gets hit hard but then recovers makes the public increasingly confident that they should buy all declines. This is a great policy -- until a bear market takes over.

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**DEBT CLIMBING:** I keep hearing fairy tales to the effect that the federal deficit is declining. Now check these figures. The total federal debt is now $5.142 trillion. Exactly one year ago it was $4.836 trillion. That means that in the last 12 months we've **added $306 billion to the national debt** or $5.8 billion a week -- or over $1 billion for every working day in the year. This is the REAL, honest-to-God deficit, and everything else you hear is political bunk. Ultimately this debt will be inflated away (otherwise, the nation will go into bankruptcy, which, of course, will never happen as long as the Fed can manufacture money).

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For those whose investment policy entails buying the highest yielding Dow Industrials, here's the latest yield rundown: Philip Morris -- 4.19%; JP Morgan -- 4.05%; Texaco -- 3.86%; Exxon -- 3.80%; Chevron -- 3.64%; GM -- 3.06%; Minn. Mining -- 2.96%; DuPont -- 2.55%; Int. Paper -- 2.55%; GE -- 2.43%.

And for those who follow the "hemline theory" (i.e., when women's dress and skirt hemlines move up or down, the market will follow), the following is headlined in the April 9 *Womens' Wear*: "Long skirts and lean shapes were back in force this season, and they turned up all over the fall collections, from Claude Montana to Anna Sui." What's next? Is the AFC finally fated to win the Super Bowl? Is there a bear market in our future?

* *

I guess the only organization that dislikes and distrusts the Clintons as much as I do is the *Wall Street Journal.* The *Journal's* "Clinton editorials" are usually written by Editor Robert Bartley. Following are excerpts from the April 9 editorial: "The Arkansas phase of Whitewater is relevant because this is where the Clinton people learned to behave this way. But filibustering Democrats want no further character witnesses about the Clintons and their coterie . . . In its broadest sense, from the Ozarks to the White House, Whitewater is an endless web of lies and deceptions, abuse of prerogatives and casual obliviousness of the law. Democrats have a particular reason to filibuster, of course, because the next phase of the Senate hearings will be about Dan Lasater, cocaine-convicted bond dealer and Clinton crony. That is, they would open the question of whether the same behavior pattern applied to the Arkansas drug scene, not only seamy but sinister." **Russell comment:** Nothing would surprise me about the Clintons, nothing.

* *

Speaking about nasty situations, how about this: Evidently, the Walt Disney Co. (which owns ABC) is feuding with NBC. And evidently Michael Ovitz of Disney tried to hire away one of NBC's top executives. Don Ohlmeyer, president of NBC didn't go for that. Ohlmeyer called Ovitz "the antichrist, and you can quote me on that." He added, "Ovitz has been spreading rumors with the sole intention of destabilizing NBC and my position here. It's been open warfare for a month. We will take them on like we take on all our competitors, but now there's an added incentive for making the $18 billion purchase (of ABC) by Disney as worthless as possible." **Russell Comment:** Remind me not to go into the entertainment business.

* *

To me, one of the most remarkable phenomena is the way public opinion can be swayed by the liberal media (and better than 80% of the media is liberal). As an example, look at the way the media denounced the flat tax. The flat tax, in my opinion, would be a

huge boon to Americans. "The flat tax will kill the real estate business, and it will hurt the middle class and the poor," screamed the media. All right, then allow a partial deduction for housing interest and raise the flat tax to 20% or 22% and it would still be a great boon. Just as good (many would prefer it) would be a consumption tax on all purchases. But here again the media denounced a consumption tax as an attack on the middle class and the poor.

Hong Kong has a flat tax and the tax has worked beautifully in this booming area of Asia. This clip is from the *Parade* section of the Sunday paper. Believe me, nobody is complaining about the flat tax in Hong Kong.

**Flat Tax Wins—in Hong Kong**

***Hong Kong just gave its citizens a tax break. Tax concessions of $243.5 million mean 61% of the workers will pay no income tax, and 95% of the taxpayers will pay less. The top rate is 15%, a rate proposed by some flat-tax advocates here.***

***The reason for the cut? To make the tax system fair and simple, says Donald Tsang, Hong Kong's finance secretary. It's one of a series of moves to keep the business community happy while the British colony prepares for Chinese rule in 1997.***

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**Insanity?** It now takes the American worker two hours and 17 minutes out of each eight hour day to pay his taxes. The average American will now pay more in taxes than for food, clothing and shelter combined.

* *

**Note:** With Steve Forbes out of the race, Bob Dole is reluctant to campaign on a tax reform platform. Hopefully, if Dole wins (which is doubtful) the Republicans will get rid of the current abominable tax system. But don't celebrate yet -- there's always that potential horror scenario -- Clinton wins and the House goes Democrat.

According to the conservative weekly *Human Events,* Dole's campaign may center on the "cultural crimes" of the liberal Democrats now led by Clinton -- as opposed to Bob Dole and the World War II generation which saved the nation and which lived by the principles of duty, honor and country. Today, thanks to decades of liberalism, we have abandoned children, overdosed teenagers, trapped welfare mothers, children whose parents are children, unsafe streets, waves of illegals, ignorant students, and diseased young men and women.

* *

Who was the top-ranking contributor to Clinton's presidential campaign? Why it was the investment banking firm of Goldman, Sachs, which also contributed Robert Rubin as Treasury Secretary to the administration. The move paid off when Rubin helped come to the rescue of bondholders and Goldman, Sachs by bailing out the Mexican peso with the taxpayer-backed guarantees of the US government.

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There are arguments about which city is the most extravagant (translation -- in which city can you spend the most on ridiculous goodies). Many think LA is the winner. Here are some items as supplied by *BUZZ* magazine: A bottle of Ty Nant water at the Buffalo Club costs $7. Beverly Hills Motoring Accessories will detail your car for $500. Midway Rent-A-Car will rent you a Bentley for $1,000 a day and a dollar a mile. At the Cigar Bar at Hamiltons, Beverly Hills you can buy a Don Ramon cigar for $50. The Century Club in Century City charges $20 after 10PM on Saturdays. A grande cappuccino cup of coffee in the Lobby Lounge of the Regent Beverly Wilshire costs $7. A burger from room service at the same hotel runs $15. Courtside seats for Lakers games at the Forum cost $500. Bunky's Buddies in West Hollywood will walk your mutt for $28 an hour.

* *

Words from George Steinbrenner who was hanging out with Ted Turner, founder of CNN: "There was a group of us, and Ted was saying that he wanted to broadcast the news all day long because he had to wait until 6PM and 11PM to get the news. I said to myself, 'What the hell is he talking about?' But damn if he didn't do it."

* *

We went to the big 1996 auto show last week. One of the reasons I go is to see where the crowd goes, what the public is interested in. Answer: I didn't see any particular area of interest unless it's BMW's new little sports car. There will be a number of little sports convertibles coming out including Mercedes' SLK slated for appearance in the US in early '97. It sounds silly but one thing I noticed is the huge improvement in paint in the US manufactured cars. Five years ago most of the US cars had what I call "pebbled paint" or paint with a mottled look, this against the gorgeous glassy-smooth paint of the European and Japanese cars. But today the US paint shows up just as slick and smooth as the imports. And the new colors are outstanding. But for my money, nobody builds 'em as solid, as stately, as impressive as Mercedes.

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North Korea is one of the "rogue countries," and nobody knows exactly what to expect next from this country of 24 million people, 200,000 of whom are thought to be doing hard labor under harsh conditions in political labor camps. As N. Korea grows poorer and S. Korea grows richer, talk heightens of N. Korea (with 25% of its entire GDP going into the military) doing something crazy, crazy like invading S. Korea. General Gay Luck, commander of 37,000 US troops stationed in S. Korea, recently told a congressional subcommittee that as N. Korea's economic crisis deepens, "The question is not: Will this country disintegrate? But rather how will it disintegrate, by implosion or explosion -- and when?" A large percentage of the N. Korean population goes to bed hungry. Hungry people are desperate people, and N. Korea is a country led by a ruthless, power-hungry military.

* *

The following is from the April 9 London *Financial Times.* It's a glimpse into our frightening eavesdropping Internet future: "Tom, an overweight man in his forties, goes to the corner store to buy a few items. He places on the check-out counter a pack of chicken thighs, Ben & Jerry's ice cream and a few packs of Amstel beer. 'That will be $165.47,' says the clerk. Tom thinks there must be some mistake. 'What are you talking about? This stuff doesn't cost more than $40.' 'Well, yes, but then there are the taxes.' 'Over $100 in taxes?' 'Yes.' She consults the receipt. 'It says you are in a high-risk category for heart attacks. The fee will offset the cost of your future hospitalization.' 'But the stuff's not even for me. It's for my wife.' 'Well, next time you should send her to the store, it might be cheaper." **Russell comment:** Could this happen? Nah, no way. Washington would never allow it.

* *

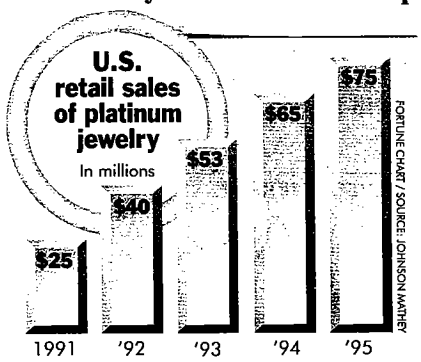
Millionaire investor Jim Rogers is most definitely not recommending investing in Russia. Here's what he says about Russia -- "I had a strong sense when I motorcycled across Russia on both the northern and southern routes -- 9,800 miles of mystery, beauty and misery. I saw evidence everywhere of a collapsing society: rusting missiles, dilapidated military trucks, crops rotting in the fields, lakes filled with sewage, oils rigs in disrepair . . . Foreigners' profits will be taxed away, inflated away, or taken away. This summer the Russians may hold an election to select their first president since the breakup of the union into 15 separate parts. But don't be fooled. The American press will have predictions about this election -- but the results will be totally meaningless. An enormous historical force is playing itself out. The collapse of the Soviet Union has only just begun."

* *

In Sao Paulo, biggest city in S. America, 7,358 people were murdered last year or one every hour. This is a 50% increase over the 1992 figure. Why? Gangs and the introduction of crack cocaine to Brazil. Sao Paulo's murder rate is twice that of Rio de Janeiro, the country's other city infamous for violence.

* *

**Platinum,** long favored for jewelry in Japan, is gaining acceptance worldwide for jewelry. Platinum is fast becoming a status symbol, since it is more expensive than gold. It is also heavier than gold and harder to work with (it melts under much higher heat than gold -- for chart of platinum's growing retail usage please turn to top of page 5).

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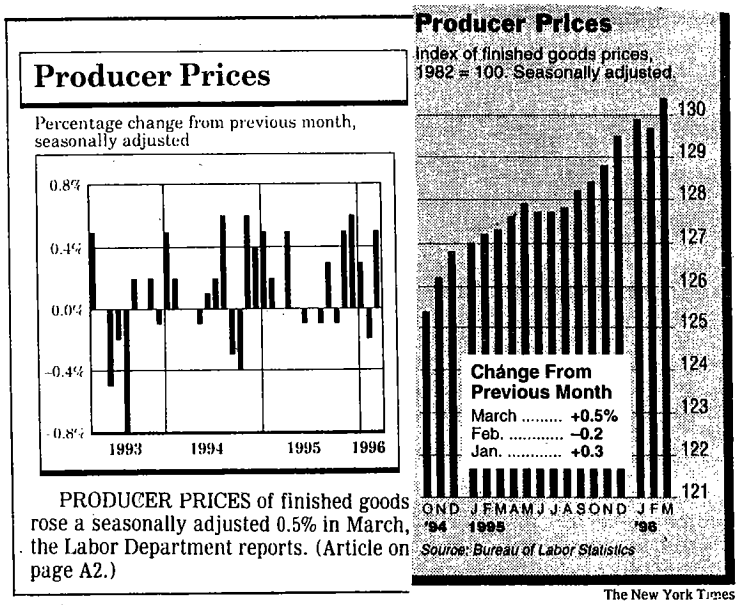
**Can Charts Lie?** Not really, but they can obscure the truth. Here are two charts both published on April 12 -- the first is from the *WSJ*, the second is from the *NY Times*. The *Journal's* chart is meaningless for the average reader (it shows percentage change from the previous month), but the *Time's* chart shows the actual Index, and here we see that the trend of producer prices is clearly UP.




PRODUCER PRICES of finished goods rose a seasonally adjusted 0.5% in March, the Labor Department reports. (Article on page A2.)

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**Investment Derby for 1996 so far:** Values include earned interest or dividends: International Stock mutual funds -- up 4.9%; US Small-Stock mutual funds -- up 6.3%; US Blue-Chip Stock mutual funds -- up 4.9%; Gold Bullion -- up 1.8%; Long-term Treasury Bonds -- down 7.9%; Money market mutual funds -- up 1.3% and Long-term municipal bonds -- down 1.3%.

* *

**Startling Figures:** People's capitalism? Not quite yet. For instance, the top 5% of all households in the US own fully 77% of equity holdings, individual shares, defined-contribution pension funds, IRAs, Keoughs, 401(k)s and the like, and mutual funds. The bottom 80% or four households out of five owned just 1.8% of the total value.

* *

**Score board:** Almost one-third of all American children (two-thirds of all black children) are now born out of wedlock. Of those white women who married in the late '60s and '70s, about 50% have already been divorced. In 1994, 40% of "never married" women in their 30s had an illegitimate child.

* *

I want to talk about three books, any one of which could and should change your thinking. The first duty of any organism is to SURVIVE. These books will help you. So here goes. The first is a book written by Judge Judy Sheindlein, known as "the toughest family judge" in America. This deadly serious book has the nasty title, "Don't Pee On My Leg and Tell Me It's Raining" (Harper-Collins --translation of the title: don't lie to me). The book tells the mind-boggling story of the breakdown of America's juvenile court system and the unbelievable story of what's happening to a large section of America's youth. You'll be furious when you read this one. And frightened. It's a shocker.

The second book is entitled, "You'll Never Make Love In This Town Again" (Dove Books). This book was written by four prostitutes, and it's the talk of Hollywood. It's also on the *NY Times* "Best Seller" list. My daughter, Betsy Russell, is mentioned in it, but in a good way. If you have a daughter who wants to be an actress and she's on her way to Tinseltown, make her read this book before she goes. And if you have an idea that Hollywood is a nice place for a young girl to live in, well again, read this book. It's an eye-opener, and names are named, big names. Despite what you may think this is a serious book, and I'm glad many of these shocking stories have finally come out.

The third book is the work of an ex-San Diego cop, a thirty-year veteran who specializes in keeping people alive. It's called "Strong on Defense" by Sanford Strong (Pocket Books). My oldest daughter and Lynn Hunter (who works here) have both taken Sandy Strong's survival course. They say he's terrific. This book tells you about crime, what to expect and where, and how to survive when you're confronted with a dangerous situation (and today the odds are that you WILL BE confronted by a dangerous situation sometime in your lifetime). Forget all your ideas of how you'll survive in a life-threatening confrontation with a criminal. I'll guarantee most of your ideas are WRONG. Example: you're sitting in your car when a creep jumps in beside you, sticks a gun in your side, and tells you to drive off. What do you do? No question about it -- you CRASH the car, and as soon as possible -- result, the creep is shocked, he's lost control over you, and people come running. And you've probably saved your life. Personally, I've been mugged twice, once in NYC and once in San Francisco. I lived through both, and I know what it's like. This book is an absolute must for anybody who wants to survive, whole and in one piece in the dangerous '90s. I put this book on my "must buy" list.

* *

"It's a Great Life" Dept.: When the Fed is accused of spending lavishly and doing a rotten job of controlling its expenses (God knows what their expenses are, nobody's ever audited the Fed), Greenspan simply drops a letter to the GAO and states that he disagrees. And presumably that's the end of it. Ah, to be a honcho with the Fed. And ah, to be accountable to no one.

* *

I could be wrong, of course, but as I see it the Republican campaign for the presidency is falling apart, unraveling, collapsing. In a late poll the *LA Times* shows Clinton leading Dole by 55% to 37%. The *Times* is a super-liberal paper, but I have no reason to doubt their poll results. On April 19 in a lead editorial the WSJ questioned the whole GOP position, noting that Gingrich has become a non-factor and Dole appears to have no policy, no plans, no concept of where he wants to take the country.

I'll go further. I'm not even sure that the Republicans won't lose the Senate and House. As far as I'm concerned, the Republicans got very little done, the Contract With America is almost forgotten, and Clinton & Co. has been able to thwart the Republicans at almost every turn. The flat tax went flat because nobody but Forbes was behind it, and even Dole's excellent idea for a medical savings plan was defeated last week.

Russell suggestion -- be prepared to live and deal with a Democrat president and very likely a Democrat Congress. Be prepared for deficits, debts, gradually rising inflation and a demoralized GOP.

**THE TIMES POLL**

# GOP, Dole Face Danger Signs; Clinton Leading

By RONALD BROWNSTEIN
TIMES POLITICAL WRITER

WASHINGTON—Like twin anchors, disappointment with the Republican Congress and a lack of enthusiasm for Sen. Bob Dole are

No matter whom they support, Americans have limited expectations for the next president. Just 39% say the result of the election will have a "major impact" on their lives; a 54% majority say the outcome of the campaign will not

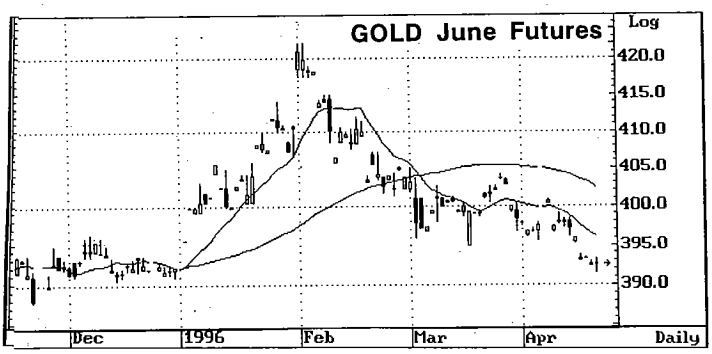
I thought this set of statistics was highly informative. It shows very dramatically how inflation has destroyed the purchasing power of the dollar. For instance, in 1956 the minimum wage was one dollar. But adjusted for inflation, a 1956 dollar was worth $5.13. In other words, the 1956 dollar was worth more than the current minimum wage's $4.25. Turn to 1986. In 1986 the minimum wage was $3.35. But workers in 1986 had more purchasing power with a $3.35 minimum wage than do today's workers with a $4.25 minimum wage. At the rate the dollar's purchasing power is eroding, by 2010 a worker receiving a minimum wage of $10 an hour will be damn near broke.

| CHANGES IN MINIMUM WAGE | |
|---|---|
| Current hourly minimum wage | $4.25 |
| 1986 minimum wage ($3.35) in 1995 dollars | $4.64 |
| 1976 minimum wage ($2.30) in 1995 dollars | $5.88 |
| 1966 minimum wage ($1.25) in 1995 dollars | $5.39 |
| 1956 minimum wage ($1.00) in 1995 dollars | $5.13 |
| Last time minimum wage was increased | From $3.35 to $3.80 in 1990 and to $4.25 in 1991 |
| Amount of erosion in value of minimum wage since it was last raised | 50 cents |

**GOLD:** How can it happen? How can cotton explode, how can crude oil go over 25, how can wheat and corn go to record highs, how can John Elway sign a five-year contract with Denver for $29 million -- how can all that occur and gold and silver be in bearish trends?

I guess the only answer is that the "big guys" now buy the currencies if they're worried about the inflation or the dollar. Or while the stock market is hot, while people are lining up to buy (are you kidding?) Planet Hollywood, who needs gold? Precious metal fans will just have to face facts -- gold is not loved at this time. My old friend John Magee posted a sign on his wall; it said, *"Don't tell me what to buy -- tell me when to buy it."* Yes, gold will head skyward one day, gold will sell for $500, $600, $800 an ounce some day -- but not now. And that's something goldphiles will just have to deal with.

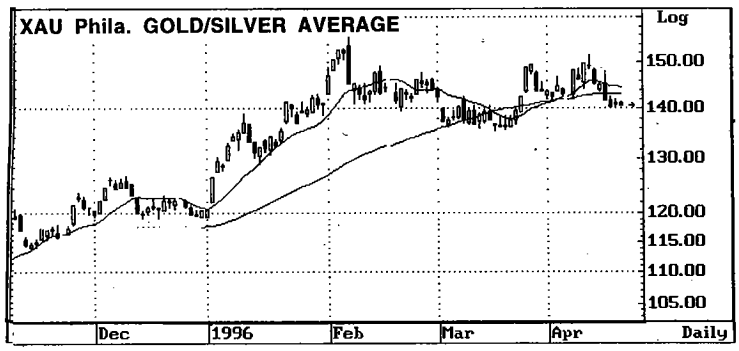
I have included a daily chart of gold, June futures contract. Currently, gold is in a downtrend, and support comes in at 387-390. The moving averages are in the bearish mode and now the 55-day MA has turned down.

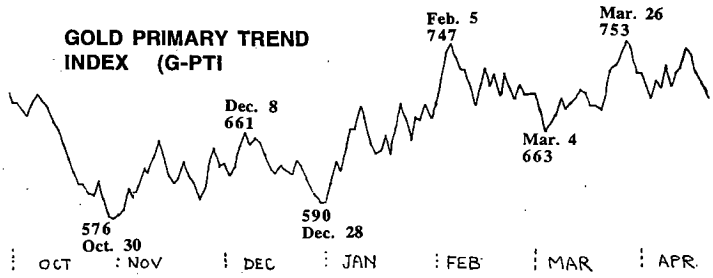



The gold stocks are looking a good deal better than gold. Unlike the metal which has broken below its March low, the **XAU** Gold/Silver Average has refused to violate its own March low. This is an obvious plus in the total gold picture. But XAU has fallen below both moving averages, not an encouraging sign. Support for XAU comes in at 135.

Turning to the **Gold-PTI,** note that with it all, it's still in a rising trend. the G-PTI hit a six-month high on March 26 -- and just when everything looked ready to blast off -- oof. That's been the story for gold for month after month after month.

Question: Why the intense and continuing interest in gold? Answer: first -- gold is real money, not government manufactured paper. Gold is the ultimate island of safety if or when everything else goes. Second: a lot of investors remember the great gold bull market of the 1970s. They believe that somewhere ahead there will be another maybe even bigger bull market in the precious metals. Yes, I believe it will happen, but "Don't tell me what to buy, tell me WHEN."




**LATE NOTES:** For veteran market observers this has been a difficult market to follow. In markets such as this one, experience and knowledge may actually be a handicap. Or let me put it this way -- in this market the less you remember -- probably, the better you will do. After all, old-timers don't usually buy stocks when average yields on stocks are just above 2%. Old timers tend to be skeptical when IPOs and secondaries are a daily occurrence. And veteran investors back off when their next-door neighbor is touting the latest theme restaurant and when each new day brings out a new mutual fund. But here we are, with volume running over 400 million shares per session, with board rooms crowded, and with Playboy magazine telling us which are the best mutual funds to buy. Sure it's a crazy market, but hey, it's the only market we've got.

Last week I told my 18-year-old son, "Ryan, take a good look at this market. Etch it in your mind. Check out the volume. Study the charts. Look at these quotes in the paper. Remember what you see here, because you may never see anything like this again in your lifetime." Ryan looks and he shrugs -- to him it all seems pretty normal. After all, in the 18 years since Ryan was born there's never been a bear market. Ryan is a bona fide "primary bull market baby."

Looking back over the whole picture, I believe that only my Primary Trend Index has "told" *me* the correct story. Through all the frenzy and confusion (and there's been plenty of both in the last few years) the PTI has just kept going up and up.

One advantage of the PTI is that it deals only with market ACTION. It doesn't consider values, put/call ratios, short interest, margin levels, investor sentiment or anything other than the actual underlying TREND of the market.

One of these days the PTI could be wrong. The PTI could hit a new all-time high, and the next day the market will crash and a bear market will begin. Frankly, I don't think it's going to happen that way, but as you know, "the market can do anything." Fact: as this Letter is written the PTI is at a record high. That's the verdict of the PTI. Be as skeptical as you want -- but don't argue with it.

**NEXT MAILING: May 8, 1996**